

## Message Text

UNCLASSIFIED

PAGE 01 ISLAMA 00170 01 OF 02 061247Z

ACTION NEA-10

INFO OCT-01 ISO-00 AGRE-00 AID-05 CIAE-00 COME-00 EB-07

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 /091 W

-----061330Z 091188 /46

R 061130Z JAN 77

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 9328

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

UNCLAS SECTION 1 OF 2 ISLAMABAD 0170

E.O. 11652: N/A

TAGS: EGEN, PK

SUBJ: GOP LAND AND TAX REFORM

SUMMARY: PRIME MINISTER BHUTTO IN A TELEVISED SPEECH TO THE NATION JANUARY 5 LOWERED TO 100 ACRES CEILINGS ON LAND TENURE AND ANNOUNCED A REFORM OF PAKISTAN'S TAX SYSTEM FEATURING THE ESTABLISHMENT OF A TAX ON AGRICULTURAL INCOMES. INDIVIDUAL INCOME AND COMPANY SUPERTAX WERE ALSO SLIGHTLY REDUCED. THE SPEECH WAS DESIGNED, AT LEAST IN PART, WITH THE UPCOMING ELECTIONS IN MIND. SOME FORM OF LAND REFORM HAD BEEN WIDELY EXPECTED, AND OUR PRELIMINARY READING IS THAT THE ACREAGE REDISTRIBUTED UNDER THIS MEASURE COULD GO AS HIGH AS 2 MILLION ACRES IF IT WERE FULLY CARRIED OUT. GOP AND OUTSIDE ECONOMISTS HAVE BEEN PUSHING FOR AN AGRICULTURAL INCOME TAX FOR YEARS. WE BELIEVE THAT ACCEPTING THE PRINCIPLE OF TAXING AGRICULTURAL INCOME IS A SIGNIFICANT STEP, AND ONE THAT RAISES IMPORTANT QUESTIONS OF POLITICAL IMPACT, EVEN IF THE REVENUE IT RAISES TURNS OUT NOT TO BE VERY SUBSTANTIAL. MORE DETAILED COMMENTS WILL FOLLOW. END SUMMARY.

1. LAND REFORM: AFTER A LONG PREAMBLE IN WHICH HE STRESSED

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 ISLAMA 00170 01 OF 02 061247Z

THE NEED FOR BOTH EQUITY AND GREATER AGRICULTURAL PRODUCTION, THE PRIME MINISTER ANNOUNCED THAT EFFECTIVE JULY 1, 1977, NEW CEILINGS ON LAND HOLDINGS WOULD BE ESTABLISHED. THE LIMITS WERE TO BE SET AT 100 ACRES OF IRRIGATED LAND OR THE EQUIVALENT (COUNTING 2 ACRES OF UNIRRIGATED LAND AS EQUAL TO 1 ACRE OF IRRIGATED LAND). PREVIOUS CEILING HAD BEEN 150 ACRES IRRIGATED LAND OR EQUIVALENT. THIS WAS TO BE

ADMINISTERED IN SUCH A WAY AS TO ENCOURAGE LAND OWNERS TO RETAIN CONSOLIDATED BLOCS OF LAND RATHER THAN SMALL PARCELS IN DIFFERENT PLACES. OWNERS WOULD BE COMPENSATED AT THE RATE OF 30 RUPEES PER "PRODUCE INDEX UNIT." COMPENSATION WOULD BE IN 10 YEARS NEGOTIABLE BONDS BEARING INTEREST AT 1 PERCENT ABOVE THE BANK RATE, A SHORTER MATURITY BUT SIMILAR IN INTEREST TO THE COMPENSATION BONDS ISSUED TO OWNERS OF NATIONALIZED INDUSTRY. STIFF PENALTIES WERE DECREED FOR EVASION. THE LAND RESUMED WAS TO BE DISTRIBUTED FREE TO LANDLESS TENANTS AND THOSE WHOSE HOLDINGS WERE BELOW THE SUBSISTENCE LEVEL, WITH THE PROVISIO THAT THE NEWLY DISTRIBUTED LANDS MUST BE CULTIVATED. (SUBSISTENCE HOLDINGS HAVE BEEN DEFINED AS 12/5 ACRES IN PUNJAB AND NWFP, 16 ACRES IN SIND AND 32 ACRES IN BALUCHISTAN.)

2. TAXES: THE CENTERPIECE OF THE PRIME MINISTER'S TAX REFORM WAS THE INTRODUCTION OF A TAX ON AGRICULTURAL INCOMES. HOLDERS OF LESS THAN 25 ACRES OF IRRIGATED LAND OR THE EQUIVALENT WILL BE EXEMPT FROM THE NEW TAX. THOSE WITH LARGER HOLDINGS WILL PAY INCOME TAX ON THEIR ENTIRE AGRICULTURAL INCOME EFFECTIVE JULY 1, 1977. LIBERAL DEPRECIATION ALLOWANCES WERE DECREED FOR AGRICULTURAL INVESTMENTS. AT THE SAME TIME, THE PRIME MINISTER ANNOUNCED THE ABOLITION OF ALL LAND REVENUE. THESE TAXES, LEVIED BY THE PROVINCE ON A PER-ACRE BASIS, HAD ALREADY BEEN ABOLISHED FOR SMALL FARMERS IN OCTOBER 1975.

3. AT THE SAME TIME, THE PRIME MINISTER ANNOUNCED TWO  
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 ISLAMA 00170 01 OF 02 061247Z

CHANGES IN INCOME TAX RATES WHICH WILL BENEFIT NON-AGRICULTURAL TAXPAYERS. THE MAXIMUM MARGINAL INCOME TAX RATE WILL BE REDUCED FROM 60 PERCENT TO 50 PERCENT, AND THE SUPERTAX ON CORPORATIONS FROM 30 PERCENT TO 20 PERCENT.

4. COMMENT: WE WILL BE SENDING IN FULLER COMMENTS WHEN WE HAVE HAD TIME TO ASSESS THESE MEASURES MORE THOROUGHLY IN CONSULTATION WITH CONSTITUENT POSTS. WHAT FOLLOWS ARE OUR PRELIMINARY OBSERVATIONS.

5. SOME FORM OF LAND REFORM HAD BEEN GENERALLY EXPECTED DURING THIS PRE-ELECTION PERIOD. THE LOWERING OF LAND TENURE CEILINGS AND BHUTTO'S TOUGH WORDS ABOUT PREVENTING EVASION WILL NO DOUBT BE POPULAR. THIS MEASURE FOLLOWS THE DECEMBER 19 PROMULGATION OF THE "PEASANTS' CHARTER," IN WHICH THE GOVERNMENT UNDERTOOK TO DISTRIBUTE STATE-OWNED LANDS TO LANDLESS AND BELOW SUBSISTENCE FARMERS. BASED ON 1972 GOP DATA, IN THEORY,

THE NEWLY ANNOUNCED LAND REFORM MEASURES COULD  
REDISTRIBUTE AS MUCH AS 1.6 - 2 MILLION ACRES, AND IF  
THE REDISTRIBUTION OF STATE LANDS WERE FULLY CARRIED OUT,  
THE TOTAL REDISTRIBUTED COULD BE SEVERAL TIMES THAT.  
BY WAY OF COMPARISON, THE SAME GOP DATA SHOW TOTAL  
FARM LAND IN PAKISTAN AS APPROXIMATELY 49 MILLION ACRES,  
AND THE TOTAL IN HOLDINGS OF UNDER 12 1/2 ACRES AS NEARLY  
15 MILLION ACRES. WE WILL BE ASSESSING WHETHER THESE  
LEVELS OF REDISTRIBUTION ARE LIKELY TO BE ATTAINED AND  
WHAT THEIR SIGNIFICANCE WILL BE FOR THE COUNTRY.  
BYROADE

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 ISLAMA 00170 02 OF 02 061250Z  
ACTION NEA-10

INFO OCT-01 ISO-00 AGRE-00 AID-05 CIAE-00 COME-00 EB-07  
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15  
STR-04 CEA-01 /091 W  
-----061331Z 091266 /46

R 061130Z JAN 77  
FM AMEMBASSY ISLAMABAD  
TO SECSTATE WASHDC 9329  
INFO AMCONSUL KARACHI  
AMCONSUL LAHORE

UNCLAS SECTION 2 OF 2 ISLAMABAD 0170/2

6. ECONOMISTS CONCERNED WITH PAKISTAN HAD BEEN  
PUSHING FOR AN AGRICULTURAL INCOME TAX FOR MANY YEARS,  
ARGUING THAT THE GOVERNMENT'S NEED TO MOBILIZE  
DOMESTIC RESOURCES MADE IT IRRATIONAL NOT TO TAP  
INCOME FROM THE LARGEST SEGMENT OF THE PAKISTAN  
ECONOMY. WE THEREFORE CONSIDER IT HIGHLY SIGNIFICANT  
THAT THE PRINCIPLE OF AN AGRICULTURAL INCOME TAX HAS  
BEEN ACCEPTED. WE WILL BE ASSESSING THE LIKELY IMPACT  
OF THIS MEASURE ON GOVERNMENT REVENUES, AND ITS LIKELY  
POLITICAL IMPACT. THE EXEMPTION OF FARMERS WITH LESS  
THAN 25 ACRES OF IRRIGATED LAND FROM THE TAX, ACCORDING  
TO OUR PRELIMINARY ESTIMATES, ELIMINATES SOME 93  
PERCENT OF ALL FARMERS FROM THE NEW TAX, WHICH OBVIOUSLY  
WILL SIMPLIFY ITS ADMINISTRATION.

7. THE REDUCTIONS IN THE MAXIMUM MARGINAL TAX RATES

AND IN THE CORPORATE SUPERTAX WERE PROBABLY INTENDED  
AS AN INCENTIVE TO THE PRIVATE SECTOR. THEY SHOULD  
BE WELCOMED BY THE UPPER CLASSES AND CORPORATIONS BUT  
WE DO NOT YET KNOW HOW SIGNIFICANT THEY REALLY ARE.  
BYROADE

UNCLASSIFIED

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** LAND REFORMS, TAX REFORMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Sent Date:** 06-Jan-1977 12:00:00 am  
**Decaption Date:** 01-Jan-1960 12:00:00 am  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01-Jan-1960 12:00:00 am  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1977ISLAMA00170  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D770005-0948  
**Format:** TEL  
**From:** ISLAMABAD  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1977/newtext/t19770176/aaaacofj.tel  
**Line Count:** 174  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 2076b8dc-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION NEA  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 26-Oct-2004 12:00:00 am  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3653807  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** GOP LAND AND TAX REFORM SUMMARY: PRIME MINISTER BHUTTO IN A TELEVISED SPEECH TO THE NATION JANUARY 5  
LOWERED TO 100 ACRES CEILINGS  
**TAGS:** EGEN, EFIN, ECON, PK  
**To:** STATE  
**Type:** TE  
**vdkgvkey:** odbc://SAS/SAS.dbo.SAS\_Docs/2076b8dc-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009